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**KYRGYZ REPUBLIC**

# USAID REFORMA Project

## Year Two, Second Quarterly Report

### First Quarter 2013

**April 10, 2013**

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USAID REFORMA PROJECT  
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DELOITTE CONSULTING, LLP

April 10, 2013

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## 1. Major Accomplishments and Summary of Activities and Challenges

In the First Quarter of 2013, the USAID REFORMA Project expanded its project portfolio by launching several new initiatives that were conceived of and designed at the end of 2012. We also prepared and distributed our first **USAID REFORMA Project Newsletter** that we expect to update quarterly throughout the end of the project. We created two versions of our newsletter, in English and Russian, covering our major activities throughout our first project year. We expect to release our second issue in early May.

### New Projects Launched in the First Quarter of 2013

**HICD Assessment at the State Agency for Geology and Mineral Resources.** Following the signing of the Memorandum of Understanding with the State Geology Agency in December, REFORMA worked with our local implementing partner, Central Asian International Consulting (CAIC), to launch the assessment phase of the HICD program. In January, REFORMA established a Stakeholder Group comprised of donor organizations and Government institutions, whose primary goal is to exchange information on respective donor projects, coordinate activities, avoid potential overlaps, and create synergies among the projects targeted toward mineral resources sector development. The REFORMA team then launched the Performance Assessment, which consisted of a scan of the Agency's external environment and in-depth research and analysis of the Agency's internal regulations, systems, and processes. The CAIC team mapped the Agency's core business processes such as licensing, reviewing and approving all technical project documentation for exploration and production, and collecting mandatory activity reports from mining and exploration firms. Following this analysis, the team identified performance gaps within three levels of the Agency's performance (organizational, process, and individual) and began to develop a set of proposed performance solutions. In addition, CAIC IT experts developed a temporary website for the Agency to support immediate efforts to demonstrate transparent and efficient governance to the public. On March 20, REFORMA provided computer equipment to strengthen the Agency's IT infrastructure and improve the efficiency of the Agency's daily operations. At the end of the first quarter, REFORMA presented initial project findings to senior management and was finalizing recommendations for investment for the subsequent implementation phase of the HICD program.

**Study of Indirect Tax Policy and Administration.** To implement a key provision of the Government's near-term Private Sector Development Strategy, the Government asked REFORMA to undertake an analysis of the Kyrgyz indirect tax regime, specifically VAT and sales tax policy and administration, both of which have been highly criticized by both the private sector and the Government as ineffective. During February and March, REFORMA provided a team of international indirect tax experts to recommend solutions for VAT and sales tax policy based on an analysis of the potential impact that alternative solutions and economic scenarios have on tax collections. The REFORMA Team made preliminary presentations of recommendations to: (1) the core team of Government technocrats responsible for tax policy implementation and administration at the Deputy Minister/Deputy Chairman level; (2) key representatives from business associations whose advocacy activities place tax policy as a critical priority for improving the business environment; and (3) First Vice Prime Minister Otorbaev, who asked REFORMA to sponsor a Public-Private Working Group to reach consensus on indirect tax policy to recommend to the Government. Currently being finalized, the study will also include an evaluation of the current challenges in VAT and sales tax administration and make specific recommendations to improve and simplify the administrative regime for businesses.

**Public Outreach and Awareness for Introducing the Uniform Tax Declaration Regime.** In late 2012, the REFORMA Project agreed to help the State Tax Service (STS) to design and implement a public education and training program for introducing the universal tax reporting regime, scheduled to take effect in 2013. Through competitive tender, REFORMA selected the Chamber of Tax Consultants, which began to conceive of, develop, and implement a comprehensive public outreach campaign to strengthen the culture of taxpaying. Although in January Parliament delayed the

universal tax reporting requirement until 2016, REFORMA believes that it remains essential that the people of the Kyrgyz Republic understand their future tax reporting obligations and prepare for eventual uniform declaration of assets and income. Therefore, the Chamber revised the original scope of work to place more emphasis on public education in 2013 and less on actual training on how to complete the filing. The Chamber prepared and began to execute a full program of public relations, advertising and information to be distributed through electronic and print media throughout the country. It held local competitions to identify the appropriate public communications message(s) and to design the print, electronic, broadcast, and audio/visual outreach and awareness materials to educate the public on the tax reporting requirements.

### Ongoing Projects throughout the First Quarter of 2013

**Medium- and Long-Term Development Strategy of the Mineral Resources Sector.** REFORMA, the MoE, and the consortium team selected to formulate the Development Strategy conducted much of the core of its international-practice policy research throughout the first quarter. This included mobilizing Mr. Gotthard Walser, to support the research and development of policy choices recommended for inclusion in the Development Strategy. Mr. Walser provided advice and contributed research in two of the four development issues for which the team requested his assistance – mining governance regimes and geo-science information management. To provide stakeholder input into policy discussion, REFORMA and the consortium team also conducted four (4) issue-specific public Round Tables that introduced the following topics for discussion: tax policy, education and human resource strengthening, environment and social policy, and legal and regulatory frameworks for mineral resources sector development. To specifically engage both the Government and the Parliament in policy choices, REFORMA conducted two (2) policy seminars during the quarter as well. REFORMA views these public forums as critical to obtaining buy-in to the policy choices ultimately included in the Development Strategy. In addition, REFORMA and the consortium met with Parliamentary Deputy Ryspaev and the Parliamentary Committee he chairs to discuss the Development Strategy and engage committee members in the discussion of policy choices. At the end of March, REFORMA presented the MoE with computer equipment and sophisticated mining software to enable the recently established Mining Policy Department to improve its capacity to provide leadership formulating development policy for the mineral resources sector. The Medium- and Long-Term Development Strategy is expected to be drafted, widely discussed in public meetings, and finalized by the end of the second quarter of 2013.

**Licensing Law.** The framework Law ‘On Licenses and Permits in the Kyrgyz Republic’ has been under review by the Government for the past 10 months due to wide differences in opinion among government institutions regarding its provisions. In December, the MoE removed the Licensing Chamber provision from the text of the proposed Law, which was the most contentious of the provisions. With its removal, the MoE again circulated the draft Law for comment among Government institutions. As of the end of the year, the Law was being finalized by the Government for submission, presumably for submission to Parliamentary committees in January. However, the Government seems to have elevated other priorities relative to passing the Law, and it is still being considered by the Legal Department of the Government Office. Although REFORMA believes that the Law will eventually be passed by the Parliament, REFORMA’s role in the licensing and permitting reform process has been nearly completed.

### Project Phases Completed or Near-Completed in the First Quarter of 2013

**Development of the Strategic Planning Process and Creation of the Strategic Plan of the Ministry of Economy (MoE).** REFORMA’s implementing partner, the Promotion and Development Center (PDC), completed the final version of the Strategic Plan of the Ministry of Economy. The Strategic Plan identifies the mission of the Ministry, its development priorities, and performance indicators for each department. Minister Sariev subsequently issued an Order approving the Regulations of the MoE’s Planning and Budgeting Process and the Administrative Planning and Budgeting Regulations. Henceforth, all department heads and territorial and subordinate subdivisions will follow the approved standards and formats when developing annual plans and budgets and

formulating goals and objectives for their departments. As a result of the Government's recent restructuring that delegated new functions to the Ministry, REFORMA also helped the Ministry to develop a new organizational structure, which was subsequently accepted by the Minister. Upon the Government's approval of the organizational structure, REFORMA plans next to provide assistance to the newly established Internal Development Service, created under the State Secretary, to help it get off the ground. The work will include coaching the new staff on the formulating strategic goals and objectives, developing the action plan, establishing performance indicators, and institutionalizing the overall management of the strategic planning process within the Ministry.

**Public Relations and Communications Program at the MoE.** Throughout the first quarter of 2013, REFORMA provided assistance to improve the MoE's ability to communicate with the public and its external and internal stakeholders the goals, objectives and results of its reform agenda. In early January, Door Media, selected as REFORMA's implementing partner for this activity, conducted a Target Audience Survey of the mass media, businesses, and stakeholder government organizations, on perceptions of the MoE's internal and external communications capabilities. Door Media also assessed the MoE's current communications system, evaluated the communications activities, tools, and capacities of Ministry leadership and its Public Relations Unit, and completed a SWOT Analysis of the communications system. Following this assessment phase, Door Media and the REFORMA team assisted the Ministry in developing a Communication Strategy and the Action Plan. As part of this Communications Strategy initiative, REFORMA also assessed the quality and function of the Ministry's official web site and provided assistance to improve its use as a communications tool for disseminating information to businesses and the public. The new website also includes a special web-page designed for REFORMA to post information on the technical assistance provided to the Ministry. To support the implementation of the Communication Strategy, REFORMA will assist the Ministry in executing the Action Plan and employing the Performance Monitoring and Measurement Plan developed to assess improvements in communications. REFORMA will also support the Ministry in conducting field meetings with its regional staff and businesses to communicate to them the new Strategic Plan and Communications Strategy.

## Projects to be Launched in the Second Quarter of 2013

**Optimizing the Legal and Regulatory Framework and its Implementation in Conducting Business Inspections by the State Inspectorate for Ecological and Technical Safety.** As part of Government's overall program to reduce the scale of regulatory and supervisory control of market functions, REFORMA will support the MoE by undertaking a pilot review of the normative legal acts (NLAs) that govern the authorities, functions, and conduct of environmental and technical safety inspections of businesses and recommend ways to streamline and optimize their underlying legal framework. To supplement this analysis and ensure that the project also identifies which laws and regulations have been implemented in practice, REFORMA will also conduct a survey of small and medium enterprises (SMEs). The survey will also help determine to what degree the strengthened provisions of the 2011 amendments to the Law 'On Procedures for Inspecting Business Entities' has been implemented in the normal conduct of business inspections undertaken specifically by the State Inspectorate for Ecological and Technical Safety. REFORMA will issue a competitive tender in the beginning of the second quarter of 2013 to undertake this work, which will inform the design subsequent activities in reducing inspections burdens for businesses and strengthening the capacity of the State Inspectorate to conduct efficient and effective regulatory inspections.

**Study on the Need for a Law on Self-Regulatory Organizations.** The draft Law "On Licenses and Permits in the Kyrgyz Republic," mentions Self-Regulatory Organizations (SROs), but few details were elaborated. Consequently, the MoE requested that REFORMA draft a framework SRO law. REFORMA proposed instead to provide a quick scan of international practices in governing SROs and the legal framework in the Kyrgyz Republic to determine if such a law was necessary and recommend the appropriate legal structure that defines the role, functions, rights and privileges of SROs in the Kyrgyz Republic. REFORMA posted an announcement seeking an individual consultant



to undertake this two-month study, which was recently awarded to one of the founders of the Association of Kyrgyz Appraisers.

**Working Group on Indirect Taxation Policy.** Following REFORMA's presentation of initial recommendations from our study on indirect taxation policy and changes in administration, we will provide technical support to a public-private working group that will be formed to build consensus on final policy considerations. In response to First Vice Prime Minister Otorbaev's request, REFORMA will issue a tender early in the second quarter to contract a local organization to play a coordinating role in convening the working group, provide logistical support for working group meetings, and offer access to local tax advisors and our international tax experts to help interpret data, fine-tune revenue estimates, and review alternative choices. The working group is expected to complete its analysis and present its final recommendations to the Government by August.

**Phase II of HICD for the State Geology Agency.** By the beginning of the second quarter of 2013, REFORMA will finalize our recommended performance solutions for the second implementation phase of the HICD program at the State Geology Agency and make a presentation of our recommendations to senior management. Upon agreeing on specific activities with the Agency and coordinating these tasks with other donor organizations, REFORMA will issue one or more competitive tenders to local firms who will support the implementation of specific performance solutions in close partnership with the Agency.

**Tax Declaration Survey.** Early in the second quarter, REFORMA will issue a competitive tender to conduct a taxpayer survey of public perceptions of the filing requirements for universal tax reporting. This will assist in planning a similar public education, outreach and training program for universal tax reporting in 2014, for which REFORMA may provide additional assistance. It will also provide the baseline for public awareness of tax reporting requirements so that we can report REFORMA's level of impact in increasing awareness to USAID at the end of the project.

**HICD in the Tourism Department of the Ministry of Culture, Information and Tourism.** The Tourism Department has requested that REFORMA provide assistance in undertaking tasks that have been identified as part of the Swiss-funded International Trade Center's (ITC) export development strategy. The export development strategy, nearing completion of its eight-month development process, has identified a number of activities related to improving and optimizing the legal and regulatory framework for tourism development. Although developing the tourism sector is crowded with international donor assistance, no organization has offered to provide such support for improving the overall business environment. As part of this work, the Tourism Department has also asked REFORMA for assistance in developing its human and institutional capacity. REFORMA will soon conduct a quick study to determine if we should recommend the Tourism Department as our third HICD counterpart and seek approval from USAID to undertake both activities.

## 2. Improving the Business Environment for Mining and Mineral Resources

### Background

Improving the business environment for mining and mineral resources is one of REFORMA's core work streams. A foundation of our support, and one that will drive sector development activities for the remainder of the project, has been to assist the Mineral Resources Policy Department at the Ministry of Economy to develop a Medium- and Long-Term Development Strategy. REFORMA competitively selected a consortium of local organizations, led by the Kyrgyz Mining Association, Kalikova & Associates law firm and the Ken-Too Environmental Company, to pursue this activity with input and support from the range of sector stakeholders in the Kyrgyz Republic. The consortium has spent the first quarter of 2013 conducting the bulk of its study of international practices as well as engaging local stakeholders in the policy dialogue by conducting 7 Round Tables and Policy Seminars to discuss policy options. Another REFORMA core activity has been to build the capacity

of Kyrgyz government institutions to implement the Development Strategy for the Mineral Resources Sector. After launching our first Human and Institutional Capacity Development (HICD) program within the MoE, REFORMA initiated its second HICD program within the State Agency for Geology and Mineral Resources. Throughout the first quarter of 2013, REFORMA has been conducting the Assessment Phase of the program at the Geology Agency and has nearly completed this phase by the end of the quarter.

## **Medium- and Long-Term Development Strategy for the Mineral Resources Sector**

### **REFORMA Activities in Q1 2013**

The REFORMA team spent the quarter conducting best practice research and introducing alternative policy choices to stakeholders by conducting seven policy seminars/round tables. To provide substantial input into policy research, REFORMA mobilized the team's international advisor, Mr. Gotthard Walser. Mr. Walser provided advice and contributed research in two of the four sector development issues for which he was engaged: (1) Mining legal regimes, administrative and governance constraints; (2) geo-science information aspects of international best practice. He also provided assistance to the consortium by helping them to prepare presentations for the two policy seminars conducted during the quarter. These were targeted to Parliamentary deputies, Government officials and their staffs to "educate" them on the ramifications of various policy choices in creating an attractive business and investment climate for sector growth and development. In addition, REFORMA and the consortium met with Parliamentary Deputy Ryspaev and the Parliamentary Committee for Energy, Fuel and Mineral Resources to discuss the Development Strategy and engage committee members in the discussion of policy choices. Deputy Ryspaev is Chairman of this committee.

In addition to the policy seminars, REFORMA conducted four issue-specific public round tables. The round tables addressed: (1) Tax Policy and Fair Distribution of Benefits; (2) Education and Human Resource Development; (3) Environmental and Social Impact Protection; and (4) Legal and Regulatory Frameworks. REFORMA views these public forums as critical to obtaining buy-in to the policy choices ultimately to be included in the Development Strategy. A list of all the round tables/policy seminars, presentation topics and presenters is on the following pages.

### **Planned REFORMA Activities for Q2 2013**

The Consortium will complete the Draft Development Strategy and its recommended Action Plan during the second quarter of 2013. Mr. Walser will return to Kyrgyzstan early in the second quarter to provide advice in two additional areas of focus: (1) local communities and social license to operate; and (2) development of small deposits and mining hubs. With the completion of the Draft Strategy, REFORMA will conduct public discussions of the Strategy and develop the protocols to help the MoE obtain Government and Parliamentary adoption of the strategy. REFORMA will then work with other donor organizations to determine how we can support the execution of the Strategy by harmonizing laws and regulations with policies reflected in the Strategy, provide further institutional development support to continue to build implementation capacity within counterpart institutions, and promote public awareness of the benefits of Strategy implementation to ensure widespread economic growth, job creation, environmental and health protection, and a fair distribution of economic benefits to the government, private investors, and the Kyrgyz people.



### Mineral Resources Development Strategy – Round Tables and Policy Seminars Conducted

Topic, Date and Time	Presenters	Presentation	Target Audience
Round Table Policy Choices for the Tax Regime and a Fair Distribution of Benefits  January 29 9:30 am – 1:30 pm	Almaz Alymbekov Head of Mining Policy, Ministry of Economy	Moderator	50 people Experts and Stakeholders
	Valentin Bogdetsky Member of Board of Directors, Kyrgyz Mining Association (KMA)	Co-Moderator	
	Rysbek Toktogul Mining Tax Expert	Distribution of Benefits to the Government and Investors, Taxes and Mandatory Payments	
	Karybek Ibraev Executive Director of KMA, EITI Secretariat	EITI findings from the 2011 Survey on State Revenues and their Distribution by Types of Payments	
	Alexander Glukhov Head of External Relations Department, Kyrgyzaltyn Company	Kyrgyzaltyn's Experience with the New Fiscal Regime for Mining	
	Bakyt Kojogulov Director of Ken Too Mining Project Design Company	New Tax Rates Implications for Economic Efficiency of Mining Projects (Togolok Gold Mine)	
Round Table Policy Choices for Education and Human Resources for the Mining Development  12 February 2:30 am – 5 pm	Almaz Alymbekov Head of Mining Policy Department, Ministry of Economy	Moderator	30 people Experts and Stakeholders
	Valentin Bogdetsky Member of Board of Directors, Kyrgyz Mining Association (KMA)	Co-Moderator	
	Abdymanap Joldoshev Head of Technical Education Department of Ministry of Education	Existing System of Education	
	Bakyt Kojogulov Director of Ken Too Mining Project Design Company	Current and Future Human Resources Skill Needs in the Mining Industry	
	Kurama Tashtanaliev Rector of the Institute of Mining and Mining Technologies, Kyrgyz State Technical University	State of Education and Needs of Universities (Curriculum, Technology, Teacher Training, Internships, etc.).	
	Rozalia Djenchuraev Professor of Mining Resources, Department of the Institute of Mining and Mining Technologies	Experience with Foreign Cooperation in the Field of Education	
Policy Seminars  MPs and Government Officials  The Mining Industry of the Kyrgyz Republic Geology, Economics, Regulation, and Development Prospects  18 February 3:00 pm – 6:00 pm  20 February 9:30 am – 1:00	Almaz Alymbekov Head of Mining Policy Department, Ministry of Economy	Moderator	30 people Jogorku Kenesh MPs and Staff  30 people President's office Government Ministries and Agencies
	Valentin Bogdetsky Member of Board of Directors, Kyrgyz Mining Association (KMA)	Co-Moderator	
	Anatoly Malyshev Head of the Geochemical Party of the Methodical Expedition, State Geology and Mineral Resources Agency	Prospecting, Exploration, Calculation of Deposit Reserves, Classification of Reserves:	
	Gulfia Shabaeva Head of the Geological Ecology Department of the State Geology and Mineral Resources Agency	Ecological and Social consequences of Mineral Resources Development	
	Valentin Bogdetsky Member of Board of Directors, Kyrgyz Mining Association (KMA)	Institutional Structure of the Mining Sector	
	Gottard Walser International Expert in the State Regulation of the Mining Industry	International Experience in Regulating the Mining Industry	
	Valentin Bogdetsky Member of Board of Directors, Kyrgyz Mining Association (KMA)	SWOT Analysis of the Mining Industry of the Kyrgyz Republic	
	Leonid Oseldko	Development Potential of Mineral Resources and	

Topic, Date and Time	Presenters	Presentation	Target Audience
pm	Mining Expert	Small Deposits	
	Rysbek Toktogul Mining Tax Expert	Estimating the Current Value of Deposits Employing Various Value Estimation Methods	
	Bakyt Kojogulov Director of Ken Too Mining Project Design Company	The Economic Potential of the Mining Sector	
	Leonid Oseldko, Mining Expert	Issues in Mining Regulation: Licensing, Permitting, Authorization	
	Nurbek Sabirov Senior Lawyer, Kalikova & Associates Law Firm	Litigation and Arbitration Processes in the Mining Sector	
	Kamchibek Kozhogulov President of the Engineering Academy, Director of the Institute of Geomechanics and Mineral Development	Mining Industry Occupational Safety	
Committee Presentation Jogorku Kenesh (Parliament)  5 March 4:00-5:00pm	Karen Westergaard Head of USAID REFORMA Project Timur Gainanov Manager of mineral resource initiatives Valentin Bogdetsky Member of Board of Directors, Kyrgyz Mining Association (KMA)	USAID REFORMA introduced its sponsorship of the Medium- and Long-Term Development Strategy for the Mineral Resources Sector	15 people MPs and Specialists of Committee on Fuel, Energy and Subsoil
Round Table Mineral Resources Development Strategy  Policy Choices for Environmental and Social Impact Protection  14 March 9:30 am–3 pm	Adyl Kasymaliev Deputy Minister of Economy	Moderator	70 people Experts and Stakeholders
	Valentin Bogdetsky Member of Board of Directors, Kyrgyz Mining Association (KMA)	Co-Moderator	
	Gulfia Shabaeva Head of the Geological Ecology Department of the State Geology and Mineral Resources Agency	Legal Aspects of Environmental Management in Mining	
	Kalia Moldogazieva Director of NGO “Drevo Zhizni “ (Tree of Life)	Environmental Impacts of Mining and Public Participation	
	Nazgul Aksarieva Project Manager, Eurasia Foundation of Central Asia	Survey on the Impact of Mining Activity in 8 Regions of the Kyrgyz Republic	
	Tatiana Vygovskaya Director, Egalite Public Foundation	Social Conflicts in the Mining Sector	
	Nurlan Joldoshev Sustainable Development Manager Talas Copper Gold LLC	Talas Copper Gold's Experience in Community Relations Management	
	Dmitry Vetoshkin, Aigul Jusupbaeva, Independent Ecology Experts	Aral Village Environmental Impact Assessment Team as a Platform for Company-Community Dialogue.	
	Gulnara Kalikova, Senior Partner Kalikova & Associates Law Firm	Mining companies and Local Communities: Conflicts and Resolutions.	
Round Table Mineral Resources Development Strategy  Policy Choices for the Legal and Regulatory Frameworks for Subsoil Use	Almaz Alymbekov Head of Mining Policy Department, Ministry of Economy	Moderator	50 people Experts and Stakeholders
	Valentin Bogdetsky Member of Board of Directors, Kyrgyz Mining Association (KMA)	Co-Moderator	
	Almaz Alymbekov Head of Mining Policy Department, Ministry of Economy	State Subsoil Use Policy: New Perspectives in Legislation and Development	
	Aicholpon Jorupbekova Subsoil and Mining Legal Expert	Overview of Legal Regulation of Mining in the Kyrgyz Republic and Comparison with International Experience	
	Aibek Asanov Head of the Legal Department,	Judicial Disputes between the State Agency for Geology and Mineral Resources and Private	

Topic, Date and Time	Presenters	Presentation	Target Audience
28 March 9:30 am – 2:30 pm	State Agency for Geology and Mineral Resources	Companies over Subsoil Issues: Application of the Law on Subsoil	
	Kuban Ashyrkulov Independent Private Sector Mining Expert REFORMA Project HICD for the State Agency for Geology and Mineral Resources	A Map of the Licensing and Permitting System for Mining Exploration and Development in the Kyrgyz Republic	
	Akilek Tungatarov, Executive Director, International Business Council Mineral Resources Committee	Issues in Implementation Practices Experienced by the Mining Sector	
	Gulnara Kalikova, Senior Partner Kalikova & Associates Law Firm	Conclusions and Preliminary Recommendations on the Second Package of Mining Laws: Mining Concessions and Production Sharing Agreements	

## Human and Institutional Capacity Development (HICD) at the State Agency for Geology and Mineral Resources

### REFORMA Activities in Q1 2013

Following the signing of the Memorandum of Understanding with the State Geology Agency in December, REFORMA has worked with our local implementing partner, CAI Consulting (CAIC), to launch the first phase of the HICD program. We established a Performance Assessment Team, comprised of State Geology Agency representatives, CAIC staff, an International Technical Advisor, Mr. Kirk Adams, and REFORMA HICD staff. After revising the Work Plan for conducting the performance assessment, REFORMA made an introductory presentation of the HICD approach and implementation phases for all staff of the Agency on January 15, 2013.

Following this, REFORMA established a Stakeholder Group and conducted its first meeting on January 23, chaired by Agency Director, Mr. Ishinbai Chunuev. Members of the Geology Agency's HICD Stakeholder Group are donors or implementing partners who have vested interests in improving the performance of the mineral resources sector and include USAID, EBRD, the World Bank, GIZ and EFCA,. The Stakeholder Group includes other institutions and groups as well, such as the MoE and the Consortium that works on development of the REFORMA-sponsored Medium and Long-term Development Strategy for the sector. The main goal of the Stakeholder Groups is to exchange information on respective donor projects, coordinate activities, avoid potential overlaps, and create synergies among the projects targeted toward mineral resources sector development. This is critical due to the substantial number of other donors who have finally mobilized resources to provide sector assistance. All Stakeholders Group members, and the Agency in particular, expressed gratitude to REFORMA for initiating such an activity under its HICD program. Upon completing the performance assessment, REFORMA will conduct a second Stakeholder Group meeting to inform members of assessment findings and recommended performance solutions, some of which will be pursued by REFORMA during the second HICD phase while others may be supported by other donors.

The REFORMA team then launched the Performance Assessment, which consisted of a scan of the Agency's external environment and the conduct of in-depth research and analysis of the Agency's internal regulations, systems, and processes. The assessment of the external environment included conducting interviews with Ministries, Government Agencies, Parliamentary Committees, donor organizations, and representatives of the Agency's target audience – mining companies, business associations, community service organizations, and media outlets.

For the program's internal assessment, the REFORMA team conducted internal interviews and meetings with representatives from the Agency and its subordinate organizations, led two focus-group discussions with specialists and leading specialists from the Agency, and facilitated a SWOT analysis of the Agency with senior and middle management. The team also mapped the Agency's core business processes such as: (1) licensing for mineral resource exploration and production; (2) collecting periodic mandatory reports from the private sector on mining activities; (3) reviewing and approving all project documentation submitted by the private sector for construction, expansion, reconstruction, equipment use, technical and geological activities, environmental protection and compliance, and all other requirements; (4) managing the workflow of internal documents; and (5) testing and evaluating mineral samples for inclusion in the State Balance of Mineral Reserves.

During the performance assessment process, REFORMA's international advisor, Mr. Kirk Adams, reviewed the conditions of tender for the Jerooy deposit and provided input to the Director of the Agency in the form of annotated comments to the terms of the tender. He also offered two training sessions on Valuing Mining and Exploration projects using DCF models for Agency representatives and conducted several valuable discussions with regard to investment promotion and public relations with Agency staff.

Following this analysis, the team identified gaps at three performance levels: (1) Organizational-level gaps, including strategy, goals, mission and vision, functions, current flow of input and output between functions, formal organizational structure, organizational efficiency, performance monitoring and performance management systems; (2) Process-level gaps, including the links between the organization's goals and their customer/organization requirements, design of business processes, efficiency and effectiveness of business processes to accomplish the process goals, and others; and (3) Job/Performer-level, including human resource management systems, policies and procedures, job descriptions, resources, incentives and rewards, and knowledge and skills. Some of the key gaps that the REFORMA team has identified are the following:

- Insufficient funding for the Agency – the agency's current allocated budget does not meet the needs of the Agency to properly perform its tasks according to its mandate;
- Lack of well-defined regulations for all departments and gaps in the legislation that governs the work of the State Geology Agency;
- Lack of medium and long term planning on behalf of top and middle management;
- Lack of well-defined work processes and workflows and no detailed work instructions, standards and quality assessment process;
- No clear definition of roles and responsibility for some departments;
- Weak public communications and media relations and weak capacity within the press service;
- Weak human resources policies and lack of professional development opportunities for the staff;
- Some functions identified in Agency regulations, such as attracting foreign investments, are not organizationally supported or fulfilled;
- Low satisfaction on the quality of services provided by the Agency on behalf of its target audience ;
- Lack of cooperation among the various Government agencies and institutions within the mineral resources sector.

In addition, the IT experts who conducted the assessment of IT infrastructure needs developed a temporary web site for the Agency ([www.geology.kg](http://www.geology.kg)) to further support the management efforts to demonstrate transparent and efficient governance to the public and close some of the immediate gaps in communications that were identified through the assessment process. On March 20, REFORMA also presented computer equipment to help strengthen the Agency's IT infrastructure to improve daily operations and overall performance.

REFORMA has been closely coordinating its HICD activities with those of our Medium and Long-Term Development Strategy team by exchanging expertise and best practices, thus providing complementary value to both projects. REFORMA also conducted separate meetings with EBRD and GIZ to discuss their plans in the mineral resource sector and brief them about REFORMA's activities. As part of REFORMA efforts to develop the capacity of local organizations and companies, REFORMA staff has been continuously supporting CAIC experts by providing advice and HICD best-practice tips throughout the performance assessment process. By the end of the first quarter, REFORMA had made a preliminary presentation to senior management of the assessment findings and was finalizing recommendations for implementation in the next phase of the HICD program.

### **New Initiatives Planned for Q1 2013**

#### **Implementation, Phase II, of the HICD Program for the State Geology Agency**

Early in the second quarter of 2013, REFORMA present its Findings and Recommendations Report to top management and Agency staff that will outline priority performance solutions for implementation during the second phase of the program. Upon agreeing with the Agency the specific performance solutions to pursue, REFORMA will issue one or more competitive tenders to engage local firms in the delivery of selected performance-enhancing solutions.

## **3. Building Human and Institutional Capacity Development (HICD) in the Ministry of Economy (MoE)**

### **Background**

The USAID REFORMA Project provides HICD assistance to ensure that our counterpart institutions develop the capacity to fully implement and monitor sponsored reforms. REFORMA selected the MoE as the first counterpart institution to receive HICD support because the Ministry is vested with far-reaching powers to lead economic development and regulatory policy across broad swaths of the Kyrgyz economy. REFORMA launched the assessment phase in May 2012 with the Promotion and Development Center (PDC) as our local implementing partner. PDC undertook a diagnostic study of the MoE to obtain a holistic view of the Ministry's performance, identify performance gaps, and recommend targeted performance solutions. REFORMA engaged HICD Adviser Steven Kelly to assist PDC in adapting the USAID HICD assessment methodology to the MoE.

REFORMA then discussed recommended solutions for implementation under the second phase of the HICD project with Minister Sariiev and the MoE State Secretary Kurmanova. Together, we determined that, among the recommended areas of intervention, improving strategic planning, streamlining regulations, and strengthening communications processes and capacities were the areas in which REFORMA would provide further support. PDC had already provided assistance in governance and alignment of internal regulations during the assessment phase even though this task was not included in the original scope of work. In the fourth quarter of 2012, the REFORMA team worked with MoE staff to develop a strategic planning methodology and with each department to utilize the methodology to develop departmental goals and an overall Ministry Strategic Plan. REFORMA completed much of the strategic planning assistance in 2013, although the Strategic Plan was not finalized until early 2013. Building communications capacities, however, was only launched in the first quarter of 2013 following the selection of Door Media through competitive tender to assist to the Ministry in developing a Communications Strategy and Action Plan.

### **Strengthening the Strategic Planning Process and Plan Development**

#### **REFORMA Activities in Q1 2013**

In the first quarter of 2013, PDC completed the final version of the Strategic Plan of the Ministry of Economy and submitted it to the Ministry and to REFORMA. The Plan identifies the mission of the ministry, its development priorities and performance indicators for each department. The Strategy



also breaks down the Ministry's goals into three levels – higher level, mid-level and low level, with measurement indicators for each level and the persons responsible for their achievement. In early March, Minister Sariev issued an Order approving the Regulations of the MoE's Planning and Budgeting Process and the Administrative Planning and Budgeting Regulations. The Regulations for the Planning and Budgeting Process, developed by REFORMA, included the following documents: (1) the Rules (Standards) for the Formulation of Goals; (2) the Rules for the Description of Functions; (3) the Rules for the Development of the Organizational Structure; and (4) the Rules for the Formation of the Annual Action Plan. Thereafter, all department heads and territorial and subordinate subdivisions were instructed to follow the approved standards and formats when developing annual plans and budgets and formulating goals and objectives for their departments.

In addition, the REFORMA team helped the Ministry to develop a new organizational structure in light of the Government's recent restructuring that delegated a number of new functions to the Ministry, including the following: (1) Regional Development Policy; (2) Anti-Corruption Policy; (3) Policy on State Reserves; and (4) Expert Assessment of all strategic documents developed by Government ministries and agencies. In the restructuring of government functions, however, the Government decided to transfer tax policy from the MoE to the MoF. The MoE is currently arguing against this transfer, however, and it is unclear which Ministry will prevail. For that reason, subsequent work to implement the Strategic Plan has been placed on hold. Once the Government approves the Regulation that establishes the new organizational structure for the MoE, REFORMA will proceed with plans to institutionalize the strategic planning process.

As an aside, following the successful Development of the Strategic Plan for the MoE, PDC was subcontracted by the UNDP to work in the Government Office to undertake the same process of revision of functions, formulation of goals and objectives, strategic plan development with all ministries and agencies. In this way, the results of REFORMA's HICD program achieved in the MoE are being replicated in other government institutions.

### **Planned REFORMA Activities in Q2 2013**

In the next quarter, REFORMA will help the Ministry to institutionalize its strategic planning and performance monitoring process. Upon the approval of the new Organizational Structure, REFORMA plans to provide assistance to one of the newly established departments, the Internal Development Service, which was created under the State Secretary to take over the strategic planning function. REFORMA's work will include coaching of the new staff on the formulation of goals and objectives, developing the action plan, establishing performance indicators, communicating with other departments, and managing the overall strategic planning and budgeting process.

As previously considered, REFORMA also plans to undertake a more detailed functional capacity assessment of counterpart departments charged with implementing reforms supported by REFORMA, particularly the Mining Policy Department and the Entrepreneurship Policy Department. In this way, REFORMA will fully integrate its policy reform work with improving the capacities of departments and individuals charged with implementing policy reforms. Taking a comprehensive and strategic approach, improving the capacity of key counterpart departments to formulate, implement, monitor and enforce policy reform will reinforce the implementation and sustainability of reform objectives.

### **Strengthening Public Relations and Communications**

#### **REFORMA Activities in Q1 2013**

A key recommendation of the MoE's HICD Assessment was to improve the Ministry's ability to communicate with the public and its external and internal stakeholders. In late December, REFORMA selected Door Media through competitive tender to build MoE capacity in public relations and communications. Door Media then began its work in the first week of January. Over the subsequent quarter, Door Media provided a range of technical assistance activities to improve the MoE's communication capabilities. It conducted a survey of mass media, businesses, and stakeholder



government organizations on their perceptions of the MoE's internal and external communications capabilities. This involved holding in-depth interviews in seven oblasts of the republic and in Bishkek with a total of 88 respondents. The survey established a baseline that will help in measuring improvement in the level of effectiveness of the Ministry's communications in the future.

Door Media then conducted an assessment of the MoE's current communication system, evaluated the activities, tools, and capacities of Ministry leadership and its Public Relations Unit, and completed a SWOT-Analysis of the communications system. Following this assessment phase, Door Media and the REFORMA team assisted the Ministry in developing a Communication Strategy and the Action Plan. During January 24-27, Door Media experts conducted a 4-day workshop on Communications Strategy for 13 employees of the Ministry responsible for public relations from both the head office and its territorial and structural subdivisions. The training was designed to be interactive and combined both theoretical and practical elements, covering topics such as: effective communication tools and techniques, principles of communication with mass media, social media and its advantages, organization of briefings, public outreach channels, and others. Door Media also developed a Handbook on Core Communication Tools for the MoE PR staff.

During February 1-3, Door Media conducted a second workshop to write the Communications Strategy and Action Plan. The resulting documents detailed a list of PR activities to be implemented throughout the year, the persons responsible for implementation, and a set of performance indicators. On February 6, 2013, the MoE PR team presented the Communications Strategy and the PR Action Plan to Minister Sariyev, Deputy Ministers and Heads of Departments which were subsequently accepted and approved by the Minister. Door Media also provided on-the-job training and coaching of the PR Unit in further elaboration and implementation of the PR Action Plan.

As part of this Communications Strategy project, REFORMA assessed the quality and function of the Ministry's official website and, based on results of the assessment, helped to improve the Ministry's website for disseminating information to businesses and the public. The improved design of the MoE website offers easy navigation and direct access to all web pages. The new website also includes additional functions, such as: (1) a documents database with an easy and speedy upload; (2) SMS-notification of e-questions and requests from the public that will go directly to the Head of the relevant department who should ensure speedy response to the question asked; (3) a function to enable the Press Service to directly upload articles, bypassing the IT department; (4) the implementation of a single corporate email address for all staff members; (5) and the transfer of the website to a new reliable hosting company. REFORMA conducted a one week training course for the IT department on the use and maintenance of the website and for the specialists of subdivisions/departments who will be responsible for posting information to the web site. A Website Maintenance Manual was also developed for the MoE IT specialists. The new website also includes a special web-page designed for REFORMA to which is posted a considerable amount of information on the technical assistance provided by USAID through the REFORMA Project. (See the link to USAID REFORMA's page at <http://mineconom.kg/index.php?lang=ru> in the "MoE Partners" row on the bottom of the webpage.)

During the course of the project, REFORMA's HICD Advisor Tanja Georgievskaya, also conducted a two-day training session specifically for Door Media and REFORMA HICD staff to introduce the concept of performance measurement and performance indicators based on the Communication Strategy developed for the MoE. From this training, Door Media worked closely with the MoE PR Staff to develop a Performance Monitoring and Measurement Plan for the Ministry, supported by specific and measurable indicators to monitor and measure progress in implementation of the Communication Strategy and Action.

### **Planned REFORMA Activities in Q2 2013**

To further support the Communication Strategy, REFORMA will provide implementation assistance to the Ministry in the execution of its Action Plan. REFORMA will support the Ministry in

conducting field meetings with its regional staff and businesses to communicate to them the new strategic planning process and Communications Strategy.

## **4. Implementing REFORMA's Fiscal Assistance Agenda**

### **Study on Indirect Tax Policy and Administration**

#### **Background**

The 2009 Tax Code contained tax policy reforms that improved the business environment in the Kyrgyz Republic by eliminating many redundant taxes, consolidating other taxes, reducing rates for both the profit tax and VAT, and streamlining filing procedures. After four years of implementation, however, both the private sector and the Government recognize that there are significant tax burdens remaining that need to be addressed in the near term. Continuing problems with VAT administration has triggered a wave of public opinion to eliminate the VAT altogether and increase the sales tax rate to compensate for VAT collection shortfalls. Despite growing popularity with this proposed solution, even among public officials, the Government is aware that the elimination of VAT would jeopardize its international trade competitiveness and its standing with international donors. At the same time, the Government's interest in reducing regulatory and tax burdens for small businesses has also stimulated a discussion of increasing the threshold for VAT registration above the current annual revenue of 4 million som, roughly US \$85,000.

#### **REFORMA Activities in Q1 2013**

During the first quarter of 2013, REFORMA undertook an analysis of the Kyrgyz indirect tax regime to recommend the optimal solution for VAT and sales tax policy and administration. During February and March, REFORMA provided a team of international tax experts to undertake the indirect tax study to determine what fiscal policy and administrative changes we can recommend to reduce tax burdens on business, while, at a minimum, maintaining its current level of tax receipts.

The study evaluated the fiscal and economic implications of several courses of action, which included eliminating or phasing out the sales tax, raising (or lowering) the VAT registration ceiling, reducing fraud in VAT reporting, and honoring the timely payment of legitimate applications for VAT refunds. It considered how international practices in tax policy could be implemented within the context of the Kyrgyz economic and political environment and began to model and analyze the potential economic and fiscal impact of various policy choices on business growth and tax revenue. The study also evaluated current challenges in VAT and sales tax administration to make specific recommendations to improve and simplify the administrative regime in reporting, collection and refunding.

REFORMA presented several alternative policy choices in three separate presentations. The first presentation was to Deputy Ministers of the Ministries of Economy and Finance and Deputy Chairmen of the State Tax Service. These officials are most technically knowledgeable about indirect tax policy and administration and are key decision-influencers in future tax policy recommendations. The second presentation was to a group of business association representatives who are active in advocating business-friendly tax policy, so that the REFORMA team could obtain an initial reaction to alternative proposals. The third was to First Vice President Joomart Otorbaev, whose recommendation was that REFORMA provide leadership and support to the formation of a public-private working group to discuss all indirect tax policy and administrative recommendations and reach consensus on a solution to present to the Government.

#### **Planned REFORMA Activities for Q2 2013**

After discussion with the relevant Government authorities, REFORMA initially planned to issue a tender in the first weeks of the second quarter to contract a local organization to play a coordinating role in convening the working group. The Government's recent functional restructuring, however, could introduce a delay into the formation of such a group. The Government has now proposed to move responsibility for formulating tax policy from its current home in the MoE to the (MoF, a

decision which the IMF has set as a condition for providing fiscal policy assistance. Currently, however, tax policy management capacity remains in the MoE, and the Government has not, as yet, fully considered the critical implications of this capacity vacuum within the MoF. At the same time, the MoE is mustering its political capital to retain fiscal policy as one of its primary functions. Once fiscal policy has found a functional home, REFORMA will competitively select a local implementing partner to provide logistical and analytical support to the consensus-building process. Unless waylaid by the political struggle between the two Ministries, the working group is expected to complete its analysis and present its final recommendations to the Government by August, which is the deadline set by the Government for completion of a broader fiscal policy framework to be presented for Parliamentary consideration in September.

## **Public Outreach, Awareness and Training of STS Officials for Introducing the Universal Tax Declaration Regime**

### **Background**

Another consequence of the adoption of the 2009 Tax Code was the intention to introduce a system of universal tax reporting for all forms of economic activity in the Kyrgyz Republic, as well as for all Kyrgyz families. Such tax reporting is required for civil servants, but the introduction of universal declarations for all citizens was first delayed until January 2012 then delayed another year. In late 2012, the REFORMA Project agreed to help the State Tax Service (STS) introduce the required reporting regime to the Kyrgyz people, design and introduce reporting forms, and train its 300 tax inspectorates and 2,300 staff on reporting requirements. Through competitive tender, REFORMA selected the Chamber of Tax Consultants to undertake the public education and training program throughout 2013.

### **REFORMA Activities in Q1 2013**

In early 2013, the Chamber of Tax Consultants (CTC) began to work with the STS and the REFORMA team to conceive of, develop, and implement a comprehensive public outreach campaign to strengthen the culture of taxpaying. Although in January Parliament again delayed the universal tax reporting requirement until 2016, it remains essential that the people of the Kyrgyz Republic begin to understand their future tax reporting obligations and prepare for eventual uniform declaration of assets and income. Therefore, REFORMA, the STS, and the Chamber revised the original scope of work to place more emphasis this year on public education and less on actual training of tax officials, regional authorities and business associations. The Chamber prepared and began to execute a full program of public relations, advertising and information to be distributed through electronic and print media throughout the country. It held local competitions to create appropriate public communications message(s) and to design the print, electronic, broadcast, and audio/visual outreach and awareness materials to educate the public on the tax reporting requirements. The CTC also designed the public education/outreach ad placement plan, a plan for the distribution of printed materials throughout the Kyrgyz Republic and a recommended electronic media delivery program. It has just begun to launch the media program, which involved writing columns and placing ads in key newspapers throughout the country in advance of this year's April tax deadline.

In the autumn, the Chamber will begin training key STS officials so that they can undertake downstream training of regional tax officers and key opinion leaders across the country. It will create training program materials for conducting training-of-trainers seminars for tax officials throughout the Kyrgyz Republic; determine the training delivery plan, schedule and logistics; and conduct the training courses in eight cities throughout the Kyrgyz Republic –Bishkek, Osh, Jalal-Abad, Batken, Cholpon-Ata, Karakol, Naryn and Talas – to approximately 200 STS Officials over a two-day period.

### **New Initiatives Planned for Q2 2013**

REFORMA will sponsor the above activities throughout the remainder of 2013. Early in the second quarter, however, REFORMA will also issue a competitive tender to conduct a taxpayer survey of public perceptions of the filing requirements and compliance with tax reporting. This will assist in

planning a similar public education, outreach and training program for universal tax reporting in 2014, in which REFORMA may provide additional assistance, as well as provide baseline data for reporting an increase in public awareness of tax filing requirements as a result of REFORMA's public education campaign.

## 5. Optimizing and Streamlining Business Regulations

### Background

In the past few years, the Kyrgyz Republic has sought to reduce its interference in the activities of private sector enterprises to improve the enabling environment for business growth and investment. In 2008, a Law “On Optimizing the Normative Legal Base for Regulating Business Activity” was enacted to begin to reduce the scale of regulatory and supervisory control of market functions. To implement this law, a Presidential decree provided for the creation of an Interagency Commission that would oversee the execution of a program to streamline provisions of normative legal acts (NLAs) that regulate business activity and to eliminate redundant and unnecessary provisions that restrict the free functioning of commercial markets. The first set of NLAs reviewed was that regulating the issuance of business licenses and permits. Over the next three years, the Government applied a ‘guillotine’ process to review, recommend, and, eventually, eliminate a substantial number of licenses and permits. Two USAID projects – first the Business Environment Improvement (BEI) project, then the REFORMA project – supported the Interagency Commission and its secretariat, the Ministry of Economy, to reduce the number of required licenses and permits from more than 600 to less than 300 by the end of 2012. REFORMA also provided support to the Ministry to draft a framework Law ‘On Licenses and Permits in the Kyrgyz Republic’ that would establish overarching principles for government regulation through licensing and permitting. REFORMA submitted the draft law to the Ministry in May 2012, since which time it has been circulated for comment by all government institutions and is currently being reviewed by the Prime Minister’s office.

As part of the program of easing business regulations, the Kyrgyz Republic issued a decree in early 2011 that extended the NLA optimization program beyond licensing and permitting functions to include those that control and supervise business activity through the conduct of regulatory inspections. In the summer of 2011, the International Finance Corporation (IFC) and USAID were successful in promoting the adoption of amendments to the Law ‘On Procedures for Inspecting Business Entities’ that aligned regulatory inspections powers, authorities and procedures with international practices. Nevertheless, a review of the NLAs to identify inconsistencies and duplication of inspections functions among Government agencies was not initiated at that time. More recently, however, the Government has renewed its request to the MoE to undertake this legal and regulatory analysis to identify inspections activities that continue to create regulatory compliance burdens on the business community. This task has now become even more critical with the 2012 consolidation of a vast number of inspections functions into two primary Government inspectorates – the State Inspectorate for Sanitary, Veterinary, and Phytosanitary Safety and the State Inspectorate for Ecological and Technical Safety. Although the Government has recently undertaken another functional reorganization, primarily affecting the Sanitary Inspectorate, it seeks to align the legal and regulatory framework with present-day agency inspection functions to identify legal loopholes in inspections activities that continue to plague business activity.

### Licensing and Permitting

#### REFORMA Activities in Q1 2013

The framework Law ‘On Licenses and Permits in the Kyrgyz Republic’ has been under review by the Government for the past 10 months due to wide differences in opinion among government institutions regarding its provisions. In December the MoE removed the Licensing Chamber provision from the text of the proposed Law, which was the most contentious of the provisions. With its removal, the MoE again circulated the draft Law for comment. As of the end of the year, the Law was being finalized by the Government for submission, presumably for submission to Parliamentary committees

in January. However, the Government seems to have elevated other priorities relative to passing the Law. For the most part, however, REFORMA believes that its role in the licensing and permitting reform process has been nearly completed.

## New Initiatives Planned for Q2 2013

### Study on the Need for a Law on Self-Regulatory Organizations

In REFORMA's draft of the Law "On Licenses and Permits in the Kyrgyz Republic," there is a provision that provides for the existence of Self-Regulatory Organizations (SROs). To better define the role, functions, rights and privileges of SROs, the MoE requested assistance in drafting a Law on Self-Regulatory Organizations. It is unclear, however, whether such a law is necessary or advisable according to international practices and under the legal framework of the Kyrgyz Republic.

Consequently, before providing such assistance, REFORMA wanted to determine the need for and the desired practice components of such a law. Therefore, REFORMA designed a study to provide a quick scan of international practices in governing SROs and make recommendations for adoption in the Kyrgyz Republic. Components of the study will include whether other countries with a similar legal framework to the Kyrgyz Republic have a Law on SROs, which legal authorities these framework laws provide to SROs, which have active SROs outside of a framework law and what legal authorities such organizations possess within a general legal framework. Based on these conclusions, REFORMA will recommend whether a framework Law on SROs is necessary to support the development of self-regulatory organizations in the Kyrgyz Republic. The study will also identify which SROs operate in the Kyrgyz Republic, create a database of these organizations with relevant information, and present findings to business and professional associations by conducting Round Tables sponsored by REFORMA and the MoE. Following the submission of the study, if it is determined that a Law on SROs is beneficial to optimizing the regulation of business activity in the Kyrgyz Republic, REFORMA will issue a competitive tender to identify a local organization to draft the Law and undertake further public discussions as part of the development process.

### Review of the Legal and Regulatory Framework and its Implementation in Conducting Business Inspections by the State Inspectorate for Ecological and Technical Safety.

REFORMA has agreed to support the MoE by conducting a pilot review of the volume of NLAs that govern the authorities, functions, and conduct of ecological and technical safety inspections and to recommend ways to streamline and optimize their underlying legal framework. This will include ecological and technical safety inspection activities that may be undertaken by government bodies other than and in addition to the State Inspectorate for Ecological and Technical Safety. To supplement this analysis, REFORMA also wants to ensure that the project identify the degree to which these laws and regulations have been implemented in practice, particularly the 2011 amendments to the Law 'On Procedures for Inspecting Business Entities.'

This project helps to fulfill the Government of the Kyrgyz Republic's overall objective to reduce the burdens that regulatory inspections place on enterprises, while ensuring that the inspections regime adequately informs and protects citizens and the environment from harm to health, safety, and security. The goals of the pilot study will further this objective in the following way:

1. **Optimize the legal and regulatory framework for technical inspections.** This study will identify duplications, gaps, inconsistencies, and contradictions in the legal and regulatory framework for environmental and technical safety inspections in the Kyrgyz Republic, recommend amendments to specific NLAs that will eliminate these shortcomings, and draft the text of these amendments to optimize the supervising-controlling regime for environmental and technical safety inspections.
2. **Identify gaps in the implementation of laws and regulations to inform the design of an implementation strengthening program.** This study will provide qualitative but empirical information on the degree to which laws and regulations are unheeded in the conduct of business inspections, identify which NLAs are least employed in practice throughout the inspections



process, discover to what degree enterprises are aware of their rights and obligations within the inspections regime, and inform the design of a reform program to improve implementation and enforcement of the good practice laws and regulations governing environmental and technical inspections in the Kyrgyz Republic.

- 3. Identify burdensome and unnecessary technical regulations.** This study will not undertake a review of the quality and necessity of specific technical regulations in environmental and technical safety against which enterprises are inspected for compliance. It will, however, identify the areas in which the Kyrgyz Republic needs to continue to review and revise its technical regulations to reduce unnecessary and excessive burdens for businesses and improve adoption of international standards.
- 4. Provide input for building human and institutional capacity at the State Inspectorate for Environment and Technical Safety.** This study will provide baseline data to support additional assistance that REFORMA intends to provide to the inspectorate to help improve its capacity to conduct inspections under a system that reduces unnecessary burdens for business.
- 5. Inform the design of other regulatory inspections reform programs.** Likewise, the experience of this pilot may also lead to REFORMA's or other donor organizations' adoption of a similar review of the legal and regulatory framework for other state inspections functions and analysis of the degree to which NLAs are implemented, enforced, misapplied, or duplicated by state agencies.

Early in the second quarter REFORMA will select an a Kyrgyz firm, business association, NGO, or consortium of organizations to conduct the two primary work streams that relate to the conduct of inspections in the spheres of environmental and technical safety: (1) Optimizing Normative Legal Acts by undertaking a comprehensive review of the body of NLAs that may address the role, function, conduct, review process, resolution, and technical focus of environmental and technical safety inspections; and (2) Assessing Inspections Experience by undertaking a comprehensive, interview-based survey of at least 100 small- and medium-sized enterprises (SMEs) (plus 50 SMEs engaged in mineral resources exploration and production )throughout the country that attempts to determine to what degree the provisions of the identified NLAs governing the conduct of environmental and technical safety inspections have been observed, implemented and enforced.

## 6. Promoting Platforms for Public-Private Dialogue

REFORMA has been providing the Secretariat of the Business Development and Investment Council with access to a business environment improvement specialist, Mr. Azamat Akeneev, as a liaison among REFORMA, the Secretariat and First Vice Prime Minister Ortobaev's office to better integrate REFORMA initiatives with the reform priorities of the Government. REFORMA will continue this practice in the second quarter of 2013. When REFORMA's Grant Program is approved and launched, REFORMA also intends to encourage the Secretariat to make a grant application to develop and implement a vision for sustainability. This will enable it to continue to act as an ongoing mechanism for public-private dialogue to voice private sector reform priorities and the Government's progress in addressing these priority reforms.



## 7. Primary Events and Deliverables Conducted and Produced During the First Quarter 2013

### 2.1 Seminars and Public Events

1. January 15, 2013 – ‘Case for Change’ presentation to staff of the State Geology Agency under the HICD Program.
2. January 23, 2013 – Stakeholder Group meeting of the State Geology Agency under the HICD Program.
3. January 24 – 27, 2013 – Seminar on communications methodologies and tools for the Ministry of Economy’s communications staff.
4. January 29, 2013 – Round Table presentation for Mining Development Strategy – Policies for Tax and Non-Tax Payments for all stakeholders.
5. February 1-3, 2013 – Seminar on creating a Communications Strategy and Action Plan.
6. February 6, 2013, Presentation of the Communications Strategy and Action Plan by the MoE PR team to Minister Sariev, Deputy Ministers and Heads of Departments
7. February 12, 2013 – Round Table presentation for Mining Development Strategy – Policies for Improving Education and Human Resources in the Mineral Resources Sector for all stakeholders.
8. February 18, 2013 – Seminar on Geology, Economics, Regulation and Development of the Mining Sector for Parliamentarians and Advisors.
9. February 20, 2013 – Seminar on Geology, Economics, Regulation and Development of the Mining Sector for Government Agencies and the Government Office.
10. March 5, 2013 – Presentation of REFORMA’s work in Improving the Investment Climate for Mining to the Parliamentary Committee for Fuel, Energy and the Mineral Resources Sector.
11. March 14, 2013 – Round Table presentation for Mining Development Strategy – Policies to Address Environmental and Social Impact Issues for all stakeholders.
12. March 20, 2013 – Ceremony for the Handover of Computer Equipment to the State Geology Agency.
13. March 20, 2013 – Presentation of Preliminary Recommendations to Improve Indirect Tax Policy to Deputy Ministers of Economy and Finance, and the Deputy Chairmen of the State Tax Service.
14. March 22, 2013 – Presentation of Preliminary Recommendations to Improve Indirect Tax Policy to Businesses and Business Association Representatives.
15. March 22, 2013 – Discussion of Preliminary Recommendations to Improve Indirect Tax Policy to First Deputy Prime Minister Joomart Otorbaev.
16. March 28, 2013 – Round Table presentation for Mining Development Strategy – Policies to Address Environmental and Social Impact Issues for all stakeholders.
17. April 1, 2013 – Presentation of Preliminary HICD Findings by CAIC to Management of the State Geology Agency.
18. April 4, 2013 – Ceremony for the Handover of Computer Equipment to the Ministry of Economy’s Mining Policy Department.

### 2.2 Reports and Studies

- Strategic Plan for the Ministry of Economy
- Communications Strategy and Action Plan for the Ministry of Economy
- Mining Strategy International Best Practice Report: *Mining Legal Regimes, Administrative and Governance Constraints*, Craig Andrews and Gotthard Walser
- Mining Strategy International Best Practice Report: *Geo-science Information : Aspects of International Best Practice* – Craig Andrews and Gotthard Walser

## 2.3 Brochures

- USAID REFORMA Newsletter, Issue 1, February 2013.

## 8. Administrative and Staffing Issues

REFORMA has no administrative and staffing issues outstanding except for Deloitte's request to the Contracting Officer for a budget modification and salary increases for some of our CCN staff. In addition, REFORMA is still waiting to obtain final approval to launch our Grants under Contract program.

## 9. Subcontracting and Grant Pipeline, Performance and Results

The following is a complete history of REFORMA's Subcontracts, including those that have been completed, those still ongoing, and those in the pipeline for award and launch.

**REFORMA Subcontracting History and Awards**

<i>Subcontracting Activity</i>	<i>Subcontractor(s)</i>	<i>Award Date</i>	<i>Period of Perform.</i>	<i>Contract Value</i>	<i>Status</i>
<b>Optimizing and Streamlining Business Licenses and Permits</b>	<b>Foresight Foundation</b>	Mar 2012	3 months	\$70,425	Completed
	<i>Description of the Subcontracting Activity</i>				
	Completed the review and recommendations for optimizing and streamlining business licenses and permits. Drafted and submitted to the Government required changes to all normative legal acts (NLAs) to implement the recommended elimination of licenses and permits. Signed into law the elimination of 97 of those recommended.				
<b>Mining Action Plan Advisory</b>	<b>International Business Council (IBC)</b>	Mar 2012	6 weeks	\$15,000	Completed
	<i>Description of the Subcontracting Activity</i>				
	Helped to create REFORMA's Mineral Resources Development Action Plan, as a road map to provide comprehensive assistance to improve the business and investment environment for sector development by getting stakeholder feedback from the public and private sectors.				
<b>HICD for the Ministry of Economy – Phase I Assessment</b>	<b>Promotion and Development Center (PDC)</b>	May 2012	4 months	\$49,675	Completed
	<i>Description of the Subcontracting Activity</i>				
	Completed the Phase I Assessment of REFORMA's first Human and Institutional Capacity Development (HICD) Program with the Ministry of Economy (MoE). Realigned 39 functions identified through analysis of 96 laws, resolutions, and regulatory and reduced them to 16 by drafting functional Regulations for the Ministry. Provided support in helping the MoE develop the Government's pilot program budgeting process.				
<b>Re-draft the 'Law on Licenses' and Submit RIA on Proposed Law</b>	<b>Foresight Foundation</b>	May 2012	6 weeks	\$24,150	Completed
	<i>Description of the Subcontracting Activity</i>				
	Drafted a framework 'Law on Licenses' and completed the attendant Regulatory Impact Analysis (RIA) for the law.				
<b>Medium- and Long-Term Development Strategy for the Mineral Resources Sector</b>	<b>Kyrgyz Mining Association (KMA), Kalikova &amp; Associates, Ken-Too Company</b>	Aug 2012	6 months	\$149,820	Ongoing
	<i>Description of the Subcontracting Activity</i>				
	Will be creating a national Medium- and Long-Term Development Strategy for the Mineral Resources Sector that will involve all stakeholders in the discussion of policy				

## REFORMA Subcontracting History and Awards

<i>Subcontracting Activity</i>	<i>Subcontractor(s)</i>	<i>Award Date</i>	<i>Period of Perform.</i>	<i>Contract Value</i>	<i>Status</i>
	choices across legislative, regulatory, fiscal, environmental, educational and social spheres to stimulate sector growth and development.				
<b>HICD for the Ministry of Economy – Phase II Strategic Planning</b>	<b>Promotion and Development Center (PDC)</b>	Sep 2012	9 weeks	\$34,460	Near Completed
	<i>Description of the Subcontracting Activity</i>				
	Assisting the MoE to develop a Strategic Plan and to institutionalize a strategic planning process that will drive REFORMA's future HICD assistance to reform counterpart departments.				
<b>Strengthening Public Relations and Communications for the Ministry of Economy</b>	<b>Door Media</b>	Jan 2013	4 months	\$61,095	Near Completed
	<i>Description of the Subcontracting Activity</i>				
	Provide a range of technical assistance activities to improve the MoE's public relations and communications capabilities. Conduct a Target Audience Survey, assessment of MoE's current communication systems, activities, tools and capacities of Ministry leadership and its Public Relations Unit, and an assessment of its web site. Develop a Communications Strategy and Action Plan, provide on-the-job training and coaching of the PR Unit to implement the Action Plan, design and implement a Monitoring and Evaluation (M&E) Plan, and improve Ministry's web site.				
<b>HICD Assessment for the State Geology Agency</b>	<b>CAI Consulting</b>	Jan 2013	2 ½ months	\$61,310	Launched
	<i>Description of the Subcontracting Activity</i>				
	The Assessment will include conducting a full diagnostic study of Agency's organization, its functions and its activities, identifying performance gaps, and recommending targeted performance solutions. The Assessment team will also undertake a thorough inventory of the Agency's computer and information technology equipment and determine its IT needs.				
<b>Public Outreach, Awareness, and Training of STS Officials for Introducing the Uniform Tax Declaration Regime</b>	<b>Chamber of Tax Consultants</b>	Jan 2013	6 months	\$146,320	Launched
	<i>Description of the Subcontracting Activity</i>				
	For the introduction of Uniform Tax Declaration, undertake a Public Education and Outreach Campaign and conduct a Training of Trainers for 200 STS Officials.				
<b>TOTAL SUBCONTRACT AWARDED</b>				<b>\$612,255</b>	

## REFORMA Subcontracting Pipeline

<i>Subcontracting Activity</i>	<i>Anticipated Tender Date</i>	<i>Anticipated Award Date</i>	<i>Target Period of Performance</i>	<i>Anticipated Subcontract Value</i>
Optimizing the Legal and Regulatory Framework and its Implementation in Conducting Business Inspections by the State Inspectorate for Ecological and Technical Safety	April 2013	May 2013	3 months	\$100,000
VAT Working Group Management	April 2013	May 2013	5 months	\$30,000
Tourism HICD Assessment - Phase I	April 2013	May 2013	1 month	\$30,000
Geology HICD Implementation - Phase II	April-May 2013	May-June 2013	4-6 months	\$100,000
Tax Declaration Survey	May 2013	June 2013	4 months	\$125,000
Ministry of Economy HICD Implementation (Strategic Planning Process Support) - Phase	May 2013	June 2013	2 months	\$30,000

## REFORMA Subcontracting Pipeline

Subcontracting Activity	Anticipated Tender Date	Anticipated Award Date	Target Period of Performance	Anticipated Subcontract Value
II				
Total Anticipated Awards				\$415,000

## 10. Quarterly Financial Report

Budget Cost Elements	Budgeted Amount	Disbursed Amount	Accrual Amount	Expended Amount*	Remaining Budget to Complete
Labor	\$1,004,655	\$562,944	\$43,148	\$606,092	\$398,563
Program Expenses	\$4,099,546	\$602,020	\$6,520	\$608,540	\$3,491,005
ODCs	\$777,382	\$415,297	\$63,003	\$478,300	\$299,082
Overhead	\$499,292	\$278,975	\$14,310	\$293,286	\$206,007
G&A	\$1,105,480	\$379,787	\$23,005	\$402,792	\$702,688
Fixed Fee	\$227,243	\$67,179	\$4,068	\$71,247	\$155,996
<b>Total</b>	<b>\$7,713,598</b>	<b>\$2,306,202</b>	<b>\$154,055</b>	<b>\$2,460,257</b>	<b>\$5,253,341</b>

Disbursed + Accrued

## 11. Quarterly Report Annexes

Reform Activity	Name of Annex	English	Russian
<b>REFORMA Newsletter</b>	USAID REFORMA Newsletter – Issue 1 – February 2013	X	X
<b>Mining Strategy Reports on International Practice</b>	Report 1: Mining Legal Regimes, Administrative and Governance Constraints – Craig Andrews and Gotthard Walser	X	
	Report 2: Geo-science Information : Aspects of International Best Practice – Craig Andrews and Gotthard Walser	X	
	Comparative International Tax Regimes – James Otto	X	
	Mineral Tender Guidelines – General Principles to Be Applied to the Tender	X	
	Russian Code for the Public Reporting of Exploration Results, Mineral Resources and Mineral Reserves (NAEN Code)	X	
	Note on Product Sharing Agreements and their Use in Mining – A World Review	X	
<b>Mining Strategy Policy Seminars for JK and Government February 18 and 20, 2013</b>	JK Agenda for Seminar February 18, 2013	X	X
	JK Invitation for Seminar February 18, 2013	X	X
	JK Participant List for Seminar February 18, 2013	X	X
	JK Participants - Actual for Seminar February 18, 2013		X
	Government Agenda for Seminar February 20, 2013	X	X
	Government Invitation for Seminar February 20, 2013	X	X
	Government Participant List for Seminar February 20, 2013	X	X
	Government Participants - Actual for Seminar February 20, 2013		X
	Presentation – Economic Potential	X	X
	Presentation – Evaluation of Mineral Deposits	X	X
	Presentation – Exploration and Deposits		X
	Presentation – Institutional Structures	X	X
	Presentation – International Experience in Mining Regulation	X	X

Reform Activity	Name of Annex	English	Russian
	Presentation – Mining Disputes		X
	Presentation – Security Issues		X
	Presentation – SWOT Analysis		X
<b>Mining Strategy Round Table – Taxation January 29, 2013</b>	Agenda for Round Table	X	X
	Press Release for Round Table		X
	Invitation for Round Table	X	X
	Participant List for Round Table	X	X
	Participants - Actual for Round Table		X
	Article on Round Table		X
	Transcript of Round Table	X	X
	Presentation – Distribution of Benefits		
	Presentation -- EITI		
	Presentation – Experience of Kyrgyzaltyn		
	Presentation – New Tax Implications		
	Analytical Slide – New Tax Implications		
<b>Mining Strategy Round Table – Developing Human Capacity February 12, 2013</b>	Agenda for Round Table	X	X
	Press Release for Round Table		X
	Invitation for Round Table	X	X
	Participant List for Round Table		X
	Participants - Actual for Round Table		X
	Transcript of Round Table		X
	Presentation – Design of a System of Education and Human Potential		X
	Presentation – Mining Institute		X
<b>Mining Round Table – Social and Environmental Issues March 14, 2013</b>	Agenda for Round Table	X	X
	Press Release for Round Table	X	X
	Invitation for Round Table	X	X
	Participant List for Round Table		X
	Participants - Actual for Round Table		X
	Transcript for Round Table		X
	Website Coverage for Round Table		X
	Presentation – ECFA/Oxus Local Community Survey		X
	Presentation – Ecology and Monitoring		X
	Presentation – Legal Issues in Protecting the Environment		X
	Presentation – Mutual Relations between Communities and Companies		X
	Presentation – Social Conflict and the Mining Sector		X
<b>Mining Round Table – Legal and Regulatory Environment March , 2013</b>	Presentation – Tree of Life		X
	Agenda for Round Table	X	X
	Press Release for Round Table	X	X
	Invitation for Round Table		X
	Participant List for Round Table	X	X
	Participants - Actual for Round Table		X
	Website Coverage for Round Table		X
	Presentation – Legal and Regulatory History		X
	Presentation – License Litigation		X
	Presentation – Licensing Procedures – Subsoil, Land, Inspections		X
<b>HICD for the State Geology Agency</b>	Presentation – Licensing Procedures – New Laws and Policy		X
	CAIC – First Presentation on Findings		X
	CAIC – Financial and Economic Analysis		X
	CAIC – Financial and Economic Analysis Annex		X
	CAIC – Human Resource Analysis	X	X
	CAIC – IT Infrastructure Analysis	X	
	CAIC – Legal Analysis		X
	CAIC – Public Communication Analysis		X
	Target Audience Survey Report	X	X
	Current Licensing Procedures – Subsoil, Land, and Inspections Phases		X
	Current Licensing Procedures – Construction Phase		X

Reform Activity	Name of Annex	English	Russian
	Recommendation Licensing Procedures		X
<b>Ministry of Economy HICD – Strategic Planning and Communications Strategy</b>	Strategic Plan (PDC)	X	X
	Strategic Plan Regulation (PDC)		X
	Guide on Organizational Structure (Door Media)		X
	Communications Strategy Presentation (Door Media)		X
	Communications Strategy (Door Media)		X
<b>Indirect Tax Policy and Administration Analysis</b>	Presentation of Findings and Preliminary Recommendations	X	
	Presentation to First Vice Prime Minister Otorbaev	X	
	Minutes of Presentation to Deputy Ministers March 20, 2013	X	X
	Minutes of Presentation to Business Associations March 22, 2013	X	X
<b>Tax Declaration Public Education Campaign</b>	Justification to Annual Work Plan	X	X
	General Calendar Plan	X	X
	Circulation and Media Coverage Information	X	X
	Justification to Annual Work Plan	X	X
	Ad in SuperInfo – March 29		X
	Ad in Vechirniy Bishkek – March 22		X
	Ad in Vechirniy Bishkek – March 29		X
	Ad in Vechirniy Osh – March 29		X
	Article in Kyrgyz – SuperInfo – March 22		X
	Article in Kyrgyz – Vechirniy Osh– March 22		X
	Screenshot on Ministry of Economy Website		X
	Screenshot on State Tax Service Website		X
	Facebook Screen Shot	X	X



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